

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

RATE ADJUSTMENT APPLICATION OF)
STONEBROOK SANITATION COMPANY,)
INCORPORATED, TO PUBLIC SERVICE)
COMMISSION USING ALTERNATIVE)
RATE FILING FOR SMALL UTILITIES)

THE AMENDED APPLICATION OF STONE-)
BROOK SANITATION COMPANY,)
INCORPORATED, FOR CONSIDERATION)
OF A REQUEST FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY TO CON-) CASE NO. 8770
STRUCT IMPROVEMENTS TO EXISTING)
FACILITIES AND AUTHORITY TO)
BORROW FUNDS NECESSARY FOR)
SUCH PURPOSES)

THE AMENDED APPLICATION OF STONE-)
BROOK SANITATION COMPANY, INCOR-)
PORATED, FOR CONSIDERATION OF)
AUTHORITY TO BORROW FUNDS)
NECESSARY TO COMPLETE THE)
IMPLEMENTATION OF THE STOCK)
PURCHASE AGREEMENT BY THE)
COMMISSION IN CASE NO. 8676,)
DECEMBER 21, 1982)

AMENDED ORDER

On February 17, 1983, Stonebrook Sanitation Company, Inc., ("Stonebrook") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. On November 3, 1983, the Commission issued its Order in this matter allowing Stonebrook a rate that would increase its revenue by \$17,281 annually. On November 23, 1983, the Farmgate Homeowners Association ("Farmgate"), through its attorney, Mr. Carl J.

Bensinger, filed its petition for rehearing to reconsider certain items allowed by the Commission in its rate Order. On December 14, 1983, the Commission issued its Order allowing a rehearing limited to the issue of depreciation expense and related plant only, which was heard in the Commission's offices on January 31, 1984.

Counsel for Stonebrook objected to several exhibits proffered by Farmgate. The objection that exhibits one and two were incomplete was satisfied by substitution of the complete documents. The objection that the exhibits were not prepared by the current owner of Stonebrook is without merit. Both exhibits, the Annual Report and federal tax return, were submitted as part of Stonebrook's previous rate case, Case Number 7307. Farmgate relied on these exhibits to justify certain costs associated with the treatment plant. Stonebrook had the same opportunity to use those documents to substantiate its position, or to prove the contents of the exhibits erroneous or misleading. It did neither. The documents standing alone merely represent the records of the regulated enterprise which are available to either party for use in presentation of its position. For these reasons, the objections by Stonebrook to Farmgate's exhibits are overruled.

DISCUSSION

During the hearing of January 31, 1984, Mr. Carl Bensinger, attorney for Farmgate, introduced as an intervenor witness, Mr. Noble Rye, Certified Public Accountant. Mr. Rye contended that the Public Service Commission erred in its calculation of

depreciation expense by amortizing the purchase price of \$124,497 over a 10-year period. The basis of Mr. Rye's computation was the three segments of the gross plant in service appearing on a balance sheet dated September 30, 1978, which had been an exhibit in Stonebrook's previous rate case before this Commission. Mr. Rye's calculation resulted in adjusted depreciation expense of \$5,460¹ as compared to original depreciation expense of \$12,450. Mr. Rye also introduced as a part of his testimony excerpts from the American Institute of CPA's Professional Standards which would substantiate his method of allocation based on a lump sum purchase price method.

In response to Mr. Rye's testimony concerning his method of allocating the purchase price of \$124,497 resulting in adjusted

¹ Rye Exhibit Number 4: (see page 22 of the transcript)

<u>Per September 30, 1978 Balance Sheet</u>	<u>Original Cost</u>	<u>Percent Of Total</u>
Land	\$ 7,065	1.3 %
Collection Sewer Lines	341,017	62.97%
Sewer Treatment Plant:		
Equipment (40%)	77,396	14.29%
Plant Structure (60%)	116,093	21.44%
Total Gross Plant in Service	<u>\$541,571</u>	100. %

Allocation of Purchase Price:

<u>Percentage</u>	<u>Cost</u>	<u>Life</u>	<u>Depr. Expense</u>
1.3% Land	\$ 1,618	-0-	\$ -0-
62.97% Collection Lines	78,396	30	2,613
14.29% Equipment	17,791	10	1,779
21.44% Plant Structure	26,692	25	1,068
Total	<u>\$124,497</u>		<u>\$ 5,460</u>

depreciation expense of \$5,460, Mr. Spalding, attorney for Stonebrook, through cross-examination and his closing remarks made the point that there were several methods of making the allocation other than the method used by Mr. Rye. Moreover, Mr. Spalding also mentioned that the Commission in Stonebrook's opinion had erred in its computation of depreciation expense found reasonable in its earlier Order in this case entered November 3, 1983, in which the Commission used a 10-year period of amortization of the purchase price instead of the 5-year period as originally proposed by Stonebrook. Stonebrook neither presented a witness on rehearing nor proffered another alternative method of allocation (other than the original 5-year amortization of total purchase price) to refute Mr. Rye's testimony.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The computation of depreciation expense, as made by Mr. Rye, is based on sound accounting principles and should be accepted for rate-making purposes.

2. The Commission's Order of November 3, 1983, should be modified to reflect a reduction in depreciation expense of \$6,990.

3. The rate in the Commission's Order entered November 3, 1983, should be modified by the rate in Appendix A of this Order to reflect a reduction in annual revenues of \$8,158² based on the adjustment in Finding No. 1 and making the proper adjustments for

² $\$41,954 \div 88 \text{ percent} + \$6,088 = \$53,763 - \$61,921 = \$(8,158)$

the operating ratio of 88 percent, Louisville Water Company charges and for Kentucky and Jefferson County, Kentucky, income taxes.


IT IS THEREFORE ORDERED that the Commission's Order entered November 3, 1983, be and it hereby is modified in accordance with Findings No. 1 and 2 and affirmed in all other respects.


IT IS FURTHER ORDERED that the rate in Appendix A be and it hereby is approved for service rendered by Stonebrook on and after the date of this Order.

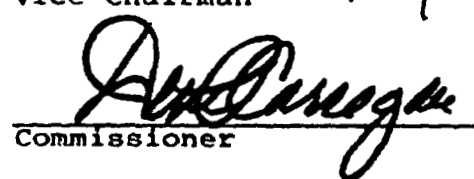
IT IS FURTHER ORDERED that within 30 days of the date of this Order, Stonebrook shall file with the Commission its tariff sheets setting out the rate approved herein.

Done at Frankfort, Kentucky, this 8th day of May, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8770 DATED
MAY 8, 1984

The following rate is prescribed for customers receiving sewer service from Stonebrook Sanitation Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

CUSTOMER CLASS

RATE

Single family residential

\$11.20 per month